Iowa General Assembly

2005 Committee Briefings

Legislative Services Agency – Legal Services Division
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TARGETED JOBS WITHHOLDING TAX CREDIT STUDY COMMITTEE

Meeting Dates: October 25-26, 2005

Purpose. *This compilation of briefings on legislative interim committee meetings and other meetings and topics of interest to the Iowa General Assembly, written by the Legal Services Division staff of the nonpartisan Legislative Services Agency, describes committee activities or topics. The briefings were originally distributed in the Iowa Legislative Interim Calendar and Briefing. Official minutes, reports, and other detailed information concerning the committee or topic addressed by a briefing can be obtained from the committee's Internet page listed above, from the Iowa General Assembly's Internet page at http://www.legis.state.ia.us, or from the agency connected with the meeting or topic described.*

TARGETED JOBS WITHHOLDING TAX CREDIT STUDY COMMITTEE
October 25-26, 2005

Co-chairperson: Senator Thomas Courtney
Co-chairperson: Senator Ron Wieck
Co-chairperson: Representative Clarence Hoffman

Overview. The Targeted Jobs Withholding Tax Credit Study Committee was charged with meeting in Sioux City to discuss a proposal for a pilot project for a targeted jobs withholding tax credit and was authorized to meet for two days. The Committee's agenda included presentations by representatives of organizations and entities located in the Sioux City area and an explanation of the pilot project proposal.

Premeeting. Members and staff were hosted by area representatives to an organic breakfast located in a farmers market that caters to organic produce. Afterwords, a tour of the local tri-state area was taken. The tour visited specific development areas in South Sioux City, Nebraska; Dakota Dunes and North Sioux City, South Dakota; as well as Sioux City.

Explanation of Proposal. Mr. Mike Goedert of the Legislative Services Agency, Legal Services Division, explained the proposed targeted jobs withholding tax credit pilot project legislation. Sioux City and Council Bluffs are designated as the pilot project cities. These cities may enter into agreements with a business to receive a withholding tax credit for each targeted job located in that city's urban renewal area. An urban renewal area is an area that has been declared by the city as a slum, blighted, or economic development area. A targeted job is a job that is located in the urban renewal area, pays a wage of at least 100 percent of the countywide average wage, and did not formerly exist in the business in the state except if the relocation is related to an expansion which will create a significant number of new jobs or the business, in good faith, intends to move outside of the state. However, the exceptions only apply if at least 10 new jobs are created or at least $500,000 in investment in the urban renewal area is made by the business. The tax credit is equal to 3 percent of the gross wages paid to the employee of the targeted job and is used to offset the amount of state income tax withholding that the business would otherwise pay to the state. The tax credit amount is transferred from the business to the city to be used by the city for an urban renewal project related to the business. The agreement is for 10 years with the ability to extend the agreement another 10 years.

John Meyers, Finance Director, Sioux City. Mr. Meyers stated that Sioux City seeks additional flexibility to strengthen its economy. The state's present incentives and the work done by the city's officials have helped but Nebraska's latest incentives in LB 775 and South Dakota's lack of income tax have made it difficult for Sioux City to be more successful, especially with larger industrial and professional arts projects. Mr. Meyers stated that the proposed legislation would provide a more helpful tool for seeking these larger industrial and professional arts projects. He provided charts that indicated the amount of tax increment financing (TIF) that was used by the city and the effect that it has had. However, TIFs are not the total answer. The council considered what could be done and looked at eliminating or reducing the state income tax in the area, but the sales tax would need to be increased and this was not feasible. The proposed legislation is seen as being the best possible course of action.

Steve Corrie, Chairperson, Siouxland Chamber of Commerce. Mr. Corrie commented that the Siouxland Chamber of Commerce represents the tri-state area and not one state. Thus, it seeks to bring economic development to the entire area. He noted that each state has something to offer besides the tax differences. Mr. Corrie opined that the requirement in the proposed legislation that a targeted job for which a tax credit may be received must pay wages equal to 100 percent of the countywide average is a good percentage figure. Anything above that figure creates an obstacle to getting businesses to locate or expand in Sioux City.

Ken Beekley, Executive President, Siouxland Economic Development Corporation. Mr. Beekley stated that much of the coverage of economic development in the media involves the efforts to attract business to a particular location. Generous packages of assistance are generally offered to lure businesses to the area. Border cities are more affected by what the adjacent state does than more centrally located communities. Mr. Beekley stated that a significant factor in the competition among states or communities is the business tax climate, which reflect both the tax burden and the structure and complexity of the tax system. Two truths are important for legislators to keep in mind. Those are: 1) Taxes matter to business, and competition, both domestic and foreign, forces businesses to constantly search for more tax-friendly environments; and 2) States do not legislate tax changes in a vacuum. He noted that during the second quarter of 2004, between 70 percent and 75 percent of the mass layoffs resulted from transfers to another United States location. Mr. Beekley discussed two research studies on comparative business tax climates and the ranking of the states that border Iowa. Based on these studies, he was able to arrive at several significant findings concerning all of the states' business tax climate rankings. These findings include the following: 1) All four states without a corporate income tax are in the top 10 and three states of the top 10 have just one bracket with a moderate rate; 2) All of the seven states without an individual income tax rank in the top 10; and 3) Seven of the states with the best business tax climates also scored in the top 10 on fiscal balance which measures state tax collections and the rules controlling revenue growth and expenditure.

Marty Palmer, President, Palmer Candy Company. Mr. Palmer noted that his company represents three generations and 85 years in existence in Sioux City. He spoke in favor of the proposed legislation, especially in regard to the 100 percent of the countywide average wage being the minimum-wage requirement for the targeted jobs for which the tax credit would be granted. He thought that the $500,000 investment seemed very low, but expressed his disfavor with a very high figure like $10 million. This amount of investment would forestall businesses like his own from qualifying. He also thought the emphasis should be on companies with a labor force of 150 to 250 instead of 1,000 to 2,000.

Dr. Julie Stoik, Western Iowa Tech Community College, Government Affairs. Dr. Stoik discussed the New Jobs Training Program under Iowa Code ch. 260E that allows the community colleges to train new employees of businesses with the funding mechanism for the training costs to be a withholding tax credit similar to the one contained in the proposed legislation. The tax credit in the proposal is viewed by the community colleges as complementary to the tax credit under the training program. She stated that these two credits together would be an effective tool for attracting businesses to enter or expand in Iowa.

Dave Berstein, State Steel Supply. Mr. Berstein stated that his company involves scrap yards and new steel products. It is capital extensive and does not add a lot of jobs, so many of the assistance programs are not as beneficial to the company. However, he added that the company did use the incentives under the Enterprize Zone Program. Mr. Berstein also expressed his approval of using 100 percent of the countywide average wage as the base. He felt that this was more acceptable than the 130 percent required with the Grow Iowa Values Fund.

Patty Heagel, Economic Development Director, Sioux City. Ms. Heagel stated that the tri-state area is a unique region that can generate opportunities through collaborative efforts. However, the region can also disproportionately encourage job growth in one or two areas over another. This is what is happening with Sioux City. Ms. Heagel provided three current examples of companies the city is negotiating with. These involve a company seeking to relocate, possibly outside of Iowa, and the other two companies seeking to expand. She noted that obstacles faced by Sioux City include South Dakota's lack of income taxes and a new Nebraska law providing a new "smorgasbord" of tax incentives. She noted that previous Iowa tax incentives were easier to use because the wages paid requirement did not exceed 100 percent of the countywide average. She is definitely in favor of the 100 percent requirement.

John Williams, CPA. Mr. Williams stated that when a business reviews the costs associated with locating in a particular state, the corporate income tax is obviously a factor. However, because of the corporate income tax structure in Iowa, Nebraska, and South Dakota, it is not a major factor. Both Iowa and Nebraska use the single factor of sales to determine the proportion of a business's net income subject to tax in those states, without a throwback provision. South Dakota has no corporate income tax.

Mr. Williams had examples of apportioning taxable income to various states based upon locality of company, the number of factors used in apportioning, a throwback provision, and a state with no income tax. He also did a comparison based upon the present law in Iowa, Nebraska, South Dakota, and Minnesota. Examples of individual income tax savings where business and employee were domiciled in Iowa, Nebraska, and South Dakota were provided.

Marty Dougherty, Sioux City Council Member. Mr. Dougherty discussed how the proposed legislation arose. It started by discussing how to get new jobs and to level the field. Sioux City made significant infrastructure investment, especially in industrial parks, but decided to go with a smaller approach. The proposed legislation would not affect local resources and would cost nothing unless new jobs are established. He emphasized that failure to build up the tax base is a greater threat to the economy than to provide the tax incentive provided in the proposed legislation.

Committee Discussion and Recommendation. The Committee ended the two-day meeting by discussing what was presented and the proposed withholding tax credit. The Committee voted unanimously to recommend the proposed legislation be considered by the General Assembly, with the understanding that changes will be made as it passes through the standing Committees.

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